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Approved For Release 2003/05/28 : CIA-RDP86T00608R000600020010-4

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## SPAIN: ECONOMIC PROSPECTS

Prime Minister Arias is trying to maintain economic expansion in the face of international recession. He is in trouble: output has risen at a slower pace since last summer, unemployment is rising, inflation has approached a 20% annual rate, the erosion of real wages has spawned strikes and demonstrations, and a big current account deficit has opened up.

Although real gross national product increased about 5% in 1974, by year end it was expanding at an annual rate of only 2% or 3%. The higher cost of oil and other imports was draining away huge sums at the very time that tourism was faltering and worker remittances were falling off. Consumer demand was weakened by inflation, and business confidence was undermined by General Franco's illness and uncertainties surrounding the succession.

As the economy lost momentum, unemployment rose -- officially to 1.8% of the labor force by December, in reality to perhaps twice that level. The disappearance of job opportunities for Spanish workers in France, West Germany, and other countries worsened the problem. Consumer prices rose 18% in 1974 -- about 4 percentage points more than in the OECD countries as a whole -- cutting sharply

into gains in nominal wages. Madrid hesitated to attack inflation for fear of aggravating unemployment.

The balance of payments deteriorated throughout 1974. Outlays for crude oil jumped \$2.3 billion. Continuation of rapid industrial growth into the first half of the year combined with the domestic inflation to bring a substantial increase in import volume. Declines in tourist receipts and worker remittances contributed to a \$3.2 billion current account deficit. Government-controlled corporations helped protect the country's reserves by borrowing \$900 million on the Eurocurrency market, and private short-term borrowing brought in additional money. Nevertheless, foreign reserves fell by \$800 million to about \$6 billion.

In 1975 the Arias government will continue to tolerate a big current account deficit and rapid inflation rather than impose austerity measures that would further dampen economic activity. Real gross national product should expand by about 3% this year, a good advance by current international standards but not enough to stop the rise in unemployment. Big government-sanctioned pay increases will help keep inflation in the double digit range. The current account deficit is expected to increase to \$4 billion, necessitating additional heavy borrowing abroad and a further drawing down of reserves.

Arias apparently aims to keep the economy expanding slowly until the international recession passes. Only then will tourism and industrial exports revive. Only then will more Spanish workers find jobs abroad and increase remittances. A premature effort to stimulate the Spanish economy would dissipate the country's foreign reserves, while austerity measures intended to protect reserves would raise unemployment and heighten labor unrest. Lacking a strong base in the working class, the regime can not afford to toy with labor unrest. The doubling of per capita real incomes since 1962 has sharpened expectations instead of bringing contentment. Even today Spanish income levels exceed only those of Portugal in Western Europe, and popular tolerance for a pause in the economic advance is low.